

Have unified standards made financial reporting more comparable?

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41,318	60	4,39	1,00
7,119	60	33,60	0,30
126,499	60	2,81	1,00
1,145,671	60	-21,66	0,17
9,910,418	60	-31,65	1,00
51,751	60	-23,64	1,00
1,621	33	-5,33	0,85
2,077,616	60	-13,32	0,50
13,041	60	-11,01	0,25
32,835,108	60	-9,80	0,75
7,507,380	60	2,95	0,50
4,165,902	60	-13,64	0,78
552	60	-6,11	0,60
800	56	-5,88	1,20
2,636,888	60	-9,86	0,15
42,960	60	-0,94	1,00
645,133	60	-10,13	0,20

The mandatory adoption of International Financial Reporting Standards (IFRS) by European listed firms in 2005, accompanied by similar regulatory action worldwide, represents one of the most influential accounting rule changes in history. The switch from a diverse set of domestic financial reporting regulations to a common set of accounting standards has affected thousands of companies that differ in terms of size, ownership structure, capital structure, culture and legal environment, among other characteristics.

The adoption of IFRS by tens of thousands firms worldwide fuelled the expectation that financial accounting practices would become more comparable. European policy makers state that the reason for mandating a common set of accounting standards for listed companies is to “level the playing field” for participants in the European capital markets by increasing the comparability of financial statements prepared by publicly traded companies across Europe. The International Accounting Standard Board (IASB) similarly argues that a single set of high quality global accounting standards is meant to provide financial market participants with comparable financial statements and thereby help them make economic decisions.

In [our paper](#), we investigate whether the adoption of harmonised accounting standards has produced a material effect on the comparability of financial accounting information provided by firms from different institutional environments.

We examine the change in comparability around mandatory IFRS adoption and find it to be centred on firms that face high compliance incentives. Using a broad cross-country sample of mandatory IFRS adopting firms and applying a variant of the standard difference-in-differences analysis, we first document that the overall comparability effect of mandatory IFRS adoption is marginal.

To test whether a lack of incentives to comply with accounting rules explains the observed marginal results, in a second set of tests we use a sample of hand-collected IFRS compliance data from German and Italian firms and find that firms that comply better with IFRS enjoy more comparability. We then use the identified firm-level compliance

incentives (i.e., auditor type, board independence, and governmental ownership) to refine our analysis on a broad cross-country sample and find that only firms with high compliance incentives experience a significant increase in comparability around IFRS adoption. Also, we document that country-level enforcement complements firm-level compliance incentives in moderating the comparability effect of mandatory IFRS adoption.

Furthermore, we test the comparability effect of mandatory IFRS adoption using a within-country matched sample of private firms as a control group. Because private firms typically have lower compliance incentives than public firms, this allows us to study the role of compliance while holding the institutional environment faced by the firms constant. Consistent with our main conclusion, we find that the comparability effect of mandatory IFRS adoption is mainly observed for public firms. Similarly, we show that IFRS adoption causes public firms to become less comparable with local private firms that continue to report under domestic GAAP.

Overall, the results of our study suggest that:

- the overall comparability effect of mandatory IFRS adoption is marginal;
- only firms with high IFRS compliance experience substantial increases in comparability;
- firms from countries with tighter reporting enforcement experience larger IFRS comparability effects;
- within-country comparability is affected by the IFRS mandate in that public firms adopting IFRS become less comparable to private firms from the same country.



Notes:

- This article is based on the authors' paper [What Drives the Comparability Effect of Mandatory IFRS Adoption?](#), 2015, *Review of Accounting Studies*, 20 (1), 242-282.
- The post gives the views of its authors, not the position of LSE Business Review or the London School of Economics.
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